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Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Japan In The Fast Lane . . .

Last year, Japan and four neighboring economies in East Asia—Hong Kong, Singapore, South Korea and Taiwan—posted some of the world's fastest economic growth rates. This is a distinction they have enjoyed for several decades. However, only Japan among them is doing at least as well this year. This is because the other countries, experiencing slower export growth and troubled by certain internal weaknesses, are growing at much slower rates and registering much smaller improvements in their external payments balances than previously recorded.

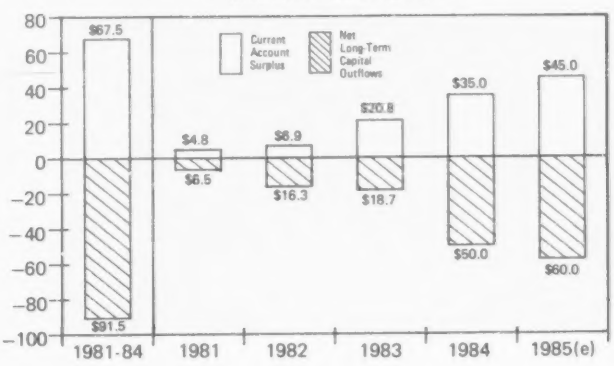
For Japan, however, this is not the case. With domestic spending firming, the pace of business activity remains robust. Overall real gross national product growth this year is expected to be in the same 5½ percent neighborhood as last year. And with export sales of such products as automobiles and video cassette recorders strong, especially those destined for the vast U.S. market, Japan's trade and current account surpluses show no sign of narrowing. Indeed, just the opposite is occurring with the trade surplus continuing to widen and the current account surplus likely to reach another record for the third straight year. The current account surplus ran at a nearly $43 billion annual clip during the first eight months of 1985 and could reach $45 billion for the year as a whole. If these numbers hold, it would mark the largest current account surplus ever posted by any country.

Not surprising, the financial surplus stemming from Japan's export success is now approaching proportions similar to those generated by OPEC during the days of soaring oil prices. And, as with oil exporters, Japan finds itself recycling an ever larger volume of funds back into the world's financial markets. Last year alone, net long-term capital outflows reached nearly $50 billion, an amount larger than in the immediately preceding three years put together (see chart). Half of this was channeled into the world's bond markets. With this year's surplus running some 20 percent larger than last year's, Japan will remain both a major exporter of goods and services worldwide, as well as a dominant exporter of capital. Where will the money go? One good bet is the United States, where long-term interest rates still exceed those in Japan by about four full percentage points.

. . . Passing Other Asian Economies . . .

The poorer performance of the other major East Asian economies reflects in part the occasionally adverse side effects arising from a strong reliance on exports to fuel domestic business activity. Merchandise exports in these countries, excluding re-exports, comprise a larger proportion of gross national product than in Japan—ranging from as

JAPAN:
CURRENT ACCOUNT SURPLUSES VS. NET LONG-TERM CAPITAL OUTFLOWS
(BILLIONS OF U.S. DOLLARS)



high as 85 percent in Singapore to as "low" as 35 percent in South Korea. This compares with less than 14 percent in Japan and six percent in the United States. As a result, when world export markets are strong, these countries often grow at rates even more rapid than that of Japan. But when these markets weaken, growth in these smaller East Asian countries often fades faster.

The United States in particular looms large as an export market for these countries. Last year, sales to the United States accounted for nearly half of Taiwan's and Hong Kong's exports, a third of Korea's and a fifth of those of Singapore. With exports to the United States sparking growth throughout the region, real GNP growth reached 7½ percent in South Korea, eight percent plus in Singapore, 9½ percent in Hong Kong and almost 11 percent in Taiwan.

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But the reverse is now underway. With U.S. imports growing more slowly this year than last year, growth in East Asia has begun to slow. For the first nine months of this year, despite their sharp rise in September, U.S. imports are up only four percent compared with the same period a year ago, and the growth of imports from Korea, Taiwan and Singapore are now much lower than a year ago. What is more, in light of the continuing sluggishness of economic activity in Europe and in the other advanced developing countries, this slack has not been offset anywhere else. As a result, this year's real economic growth rates will be sharply reduced, ranging from no growth in Singapore, to about three to five percent for Taiwan, Hong Kong and South Korea.

. . . That Have Shifted Into Lower Gear

Some internal economic weaknesses are also contributing to the current business downturn. These include undue emphasis on either a narrow expor. product line or product lines experiencing stagnant demand at best. Hong Kong, for example, still relies upon textiles and apparel for around 40 percent of its export revenues, while Taiwan is in a similar, highly concentrated position. Meanwhile, South Korea depends upon just three industries—shipbuilding, footwear and textiles and apparel—for nearly 50 percent of export revenues.

Several of Singapore's major exports are finding

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
	10/30/85		
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	176.982	– 2.385	+19.046
Loans to Depository Inst.	1.025	– .276	– 4.162
Float	.549	– .320	– .008
Total Reserve Bank Credit	193.065	– 2.503	+16.906
Treasury Deposits with Federal Reserve Banks	2.664	– .986	– 1.139
Currency in Circulation	188.540	– .880	+12.683
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	123.327	+ .418	+ 4.094
	10/23/85		
Member Bank Reserves:			
Total Reserves Held	43.803	+ .025	+ 5.960
Excess (Deficiency)	.802	+ .140	+ .386
Net Free Reserves	.333	+ .439	+ .720

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/21/85)	613.6	+ 11.0‡	+ 11.4‡
M2 (September '85)	2,528.4	+ 9.0	+ 9.5
M3 (September '85)	3,163.3	+ 7.8	+ 9.0
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/1/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.19%	7.27%	7.35%
* Federal Agencies	8.43	8.69	9.10
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.15	8.70	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.75	7.75	8.10

‡Finance Company Paper—Prime	
5- 14 days	7.85%
15- 29 days	7.85
30- 59 days	7.80
60- 89 days	7.75
90-179 days	7.68
180-239 days	7.65
240-270 days	7.65

‡* Bankers' Acceptances	
Dec.	7.85%
Jan.	7.80
Feb.	7.80
Mar.	7.80
Apr.	7.80
May	7.80

‡Industrial Paper—Prime

30- 89 days	7.78%
90-120 days	7.70

†Federal Funds Effective Rate 8.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	3.3	1.9	1.6
Change in Consumer Prices*	Sep '85	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85	– 7.2%	– 3.6%	0.0%
Civilian Employment (Thousands of Persons)†	Oct '85n	107,867	107,544	105,649
Unemployment as % of Civilian Labor Force†	Oct '85n	7.1%	7.1%	7.3%
Personal Income*	Sep '85	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100)†	Sep '85n	170.3	170.2r	165.7
Industrial Production Index (1977=100) †	Sep '85	124.7	124.8	123.3
Net Change in Consumer Installment Credit †	Aug '85	$ 6.31	$ 6.25	$ 6.02
U.S. Merchandise Trade Balance †	Sep '85n	–$ 15.55	–$ 9.90	–$ 11.54
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85	1,583	1,746	1,669
New Construction Expenditures*	Sep '85n	$ 350.4	$ 343.9r	$ 321.0
Total Business Inventories †	Aug '85	$ 577.9	$ 580.1	$ 561.7
Total Business Sales †	Aug '85	$ 429.1	$ 422.5	$ 413.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

buyers few and far between at this time. Exports of computer-related products and of shipping services are suffering from the severe global slump in these industries. The important oil-refining and offshore oil-drilling industries are also depressed. Many of Singapore's former clients now refine their own oil, and Saudi Arabia, which is beginning to export refinery products in the region, is giving the country new and substantial competition.

So, too, protectionism in the industrial world is a threat which East Asia will increasingly have to face. Shipments of textiles from these and other developing countries are already restricted under international agreements. Shipments of steel and television sets from South Korea to the United States are also restrained under other arrangements. Exports of shoes, important to both Korea and Taiwan, are the current targets of protectionist legislation in the United States.

But despite such problems, the long-term economic potential of these countries remains bright. This is because of their high savings rates, strong emphasis on exports, openness to foreign investment and generally pro-business government policies. Add to this generally favorable external debt profiles, and a recipe is in place for further economic success. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/16/85)	157,090	– 1,639	– 3,789
New York City (10/23/85)	33,649	+ 229	– 529
Commercial Paper (10/23/85)	286,404	+ 1,830	+54,490

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/85)	252,077	– 864	+ 4,813
New York City (10/23/85)	59,525	– 422	– 4,763

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/16/85)	691,890	– 798	+ 59,145
New York City (10/23/85)	149,922	– 2,502	+ 8,627

Financial Markets

	Friday 11/1/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.44%	+ .21	– 1.84
180-Day Bills†	7.68	+ .27	– 2.03
Longest Bills†	7.91	+ .42	– 2.18
Recent Issues:			
10s 10/31/87	8.70	– .16	
9 3/8s 9/30/89	9.24	NA	
10 1/2s 8/15/95	9.98	– .21	
10 5/8s 8/15/15	10.25	– .22	
Municipals:			
Bond Buyer–20 Bond Index* (10/31/85)	8.76%	– .19	– 1.35
Blue List Total ($ Million)	$1,424	–$ 282	– $ 441
30-Day Visible Supply ($ Million)	$5,879	+$1,518	+ $4,102
Total	$7,303	+$1,236	+ $3,661
Corporates:			
Moody's Aa Composite (10/31/85)	11.31%	– .09	– 1.47
30-Day Visible Supply ($ Million)	$3,023	+$1,178	+ $1,288
Stocks:			
Dow-Jones Averages:			
Industrials	1,390.25	+ 33.73	+ 173.60
Transportation	665.61	+ 16.03	+ 133.29
Utilities	161.78	+ 2.62	– 17.96
65 Stocks	563.19	+ 13.06	+ 80.98
Standard and Poor's 500 Stocks	191.53	+ 4.01	+ 24.11
N.Y.S.E. Composite Index	110.55	+ 2.19	+ 14.04
N.Y.S.E. Avg. Daily Vol. for Week (000's)	116,058	+ 5,246	+ 24,996

* 46% Taxable equivalent 16.22%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/1/85	Week Ago
Overnight	8.19%	7.81%
1 month	7.94	8.06
3 month	8.00	8.13
6 month	8.00	8.25
1 year	8.25	8.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	9.90%	10.00%
Long Term (7 to 15 yrs.)	10.40	10.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/1/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01893	52.8300
Canada	.7312	1.3676
Denmark	.1059	9.4450
France	.1259	7.9425
Germany	.3835	2.6075
Italy	.0005674	1762.50
Japan	.004769	209.70
Mexico	.002090	478.50
Netherlands	.3401	2.9403
Switzerland	.4669	2.1418
U.K.	1.4380	.6954

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